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FINANCIAL CAPITAL

ECONOFICTION, LEXICON CAPITAL, DERIVATE, FINANCE, MARX, MARXISM, MONEY

This is a very short summary of the analysis of financial capital, which i explored en detail in my books *Capitalization1 & 2* and in *Non-Marxism*. Capital is a social-economical relationship, which is driven by the profit motive. A huge range of economical phenomena is determined by a small set of operative principles, in which actual events circulate around the always moving centers of gravitation. This could be named as the systemical modus of a turbulent regulation.

To understand the term capital we use the vocabulary of the french philosopher François Laruelle. He speaks about the logic of unilateral duality, in which two terms ars subsumed not by a third term, but by the one term. The two terms and the relation are immanent to the one term. The second term is a clone of the one. Two or more terms are always determined by the one. This includes the principle of idempotency $1+1=1$. For a defintion of capital this could mean to understand capital itself as a unilateral logic, within the term capital (and labour) is not unified by a third term (abstract work), but is determined by the first term (Gesamtkapital) – besides class struggle is the determinating instance. All terms (the second term stands for commodity, money, production, labour power etc.) and the circulaton of capital (Money-Commodity-Production-Commodity'-Money'), which affects the individual capital, are immanent to the first term (capital as Gesamtkapital). Capital can not be understood as a positive value, but as a virtual process, whereby the negative – debt – is the positive condition for capitalist production and circulation; capitalization or capital is the production of debt sui generis. The first M of the circulation $M-C-M'$ has to be differentiated even more. The place of capital, with wich every circulation of individual capital starts, is occupied by two capitalists: the money capitalist and the industrial capitalist. Within the big stock corporations the industrial capitalists are at the same time the holder of fictitious capital, which makes them at once financial capitalists.

As capital has the capacity to be an end in itself, it is without measure. The famous formula $M-C-M'$ signifies, that the surplus is injected as a quantity into the tautological chain $M-M'$. On the hyphen of M and M' a mediation must take place, which is for Marx the difference between the exchange value and the use value of labour power,

whereby at the end of the process more money is written in the books than it was written in the beginning. With the term »Gesamtkapital« the excess of capital is limited. Quasi-transcendentality of capital (capital as a whole) means, that corporations apriori are subsumed under the logic of surplus, which sets conditions through competition. Gesamtkapital sets these effects and is at the same time a result of effects (relations between individual capitals, which all follow a mono-causal logic) and therefore we speak only of *Quasi-transcendentality*.

The term »Capital« includes *Setzung* (determination und superposition of capital, money capital and money), repetition (idempotency and virtualisation-actualisation) and quantitative difference (surplus). These terms are also superposed. *Setzung* includes the destruction of any fixed result through a potential circulating structure (virtualisation) and repetition means actualisation through a potential fixed circulation; *Setzung* und virtualisation-actualisation-entanglement are always in function for the surplus. The surplus is a really strange non-equation, which happens outside of a bare bourgeois distribution of a surplus product. In opposite to the equivalence of exchange value the abstract non-equivalent surplus is the determining instance of capital, the postponed significant, which indicates itself in the significant of money. The term »money-surplus-value« conditions the bourgeois term of surplus value, as the former is completely emancipated from content, and this includes a pure formal process of gliding and a systemic lack, the lack of surplus, or the famous excess of capital. In opposite to an exclusive foundation of surplus value in labour power, we insist on a machinic, algorithmical and in general on a surplus value, which results from the exploitation of differences.

Marx speaks in *Capital Vol.2* of three cycles of industrial capital: money-capital, productive-capital and commodity-capital, whereby the circulation $M-C \dots P \dots C'-M'$ represents in total the cycles of capital. The formula of money-capital-circulation is the primary mechanism of capital-economy, which constantly accompanies the commodity production as a production-for-profit and as the production-for-circulation. Money-capital is the motor for industrial and commercial corporations, which buy commodities (energy, machines, software, buildings, raw materials etc.) and rent labour power, to produce and realise products, which are enriched with surplus value.

There exists a virtual simultaneity or superposition of money, capital and money-capital, and this is related to Gesamtkapital. Also the functions of money are superposed and are related to the increase of capital. The functions of money are developed by Marx in *Capital* in a linear way, but the first function of money (measure) is realised through the second function as medium of exchange und both are spread by the movement of capital $M-C-M'$ and are included in it. The restriction Marx has to make, when he writes in a linear way, means to think always simultaneity and therefore the three Volumes of *Capital* has quasi to be read from the end and not from the beginning with the commodity form or money, but from Gesamtkapital, the whole process of reproduction of capital. The individual capitals have to retrace what is a given objectivity from the beginning: their widespread interconnectivity, dependence and their relations in a chain.

It exists an identity between financial capital and »real capital«, which is the increase of money-capital and capital power, and this leads in the tendency to a real subsumption of all processes under the capitalization of financial capital. But the competition between financial capital and »real capital« still exists. While the industrial capital uses capital markets for its competitiveness, financial capital »regulates« (non-linear systems, which are crises-proben, but robust) the strategies of »real economy.« The interdependence, interpenetration and competition is transferred into the comparison and the assessment of alternative money-investment.

Next step. Money-capital, credit and financial system (banks, money- and capital markets) are superposed. The analysis of such factors as size of capital, profitability, globalisation, creation of credit, networking etc. are crucial to understand the determining power of financial capital.

Thus the analysis of the financial system is not one of an independent sector or a special type of institution, but has to summarise, that all capitalist corporations have to carry out financial operations. The metaphor »central nervous system« of capital, which Tony Norfield uses in his book *The City*, fits here. If capital is the motor of the breathing monster Gesamtkapital (but not as an organism), then the financial system is its central nervous system. The financial system executes the coordination and decentral regulation of individual capitals, which are under the dominance of the apriori of Gesamtkapital, which actualises itself through the competition of individual capitals. It corrects competition qua permanent abductive adaptation to economic un-order and provokes it again. The financial system is an integral part of capital-economy, not a cancerous ulcer, which can be removed by a doctor to help the body of capital to a new life. Modern finance is an immanent process of capital, which protects the capitalist power relations. This marxist position is opposed by a position, which goes back to Ricardo and was continued by Veblen, Hilferding and Keynes to the point of the heterodox positions of postkeynesianism, accelerationism and postmarxism (Negri/Hardt, Žižek, Lapavistas etc.) and the position of Bichler/Nitzan: the power of capital is derived from property, profit of capital appears as an absolute rent (the

speech of »finance-feudalism«), finance appears as a sabotage of industrial production, which is mainly arranged by technicians and workers, and is based on a system of second-order-observation. The rise of finance is characterised as hypertroph, dysfunctional and unreal, as a true caricature of an ideal capitalism.

The operations of the financial system are not limited to banks or other financial institutions, they affect the whole of the capitalist system. Industrial and commercial corporations carry out numerous financial transactions. The financing of capitalist production and circulation is the financing of the reproduction of capital on a higher level. Corporations use banks to get hold of the currency, which they need to buy imports, or to change profits, which derive from exportbusiness, into the local currency. They borrow short-term credits from banks to secure their cashflow or they borrow long-term credits to finance their investments. They distribute bonds or shares at the financial markets to get hold of the money of investors. They use derivatives to insure themselves against negative movements of the interest rates, which reduce their profits.

Credit. Interest-bearing capital is part of the modern creditsystem and its circulation can be described as M-M'. Money is not exchanged against commodities or other forms of money, but money capital (different to consumer credits) is getting possible capital, when a sum of money is lend by a creditor to a debtor against securities and the credit is payed back by the debtor (plus interest'). The condition here is property, related to the money of the creditor and the securities of the debtor. Property can be lend, pledged and burdened. Today the big institutional creditors like banks lend more or less only foreign money, but the most important point is, that private banks create credit themselves (bank deposits).

An important use of modern credit is an advance through an owner of money-capital (or in case of the banks the non-owners of money-capital) to an industrial capitalist, who uses the money-capital to organise a profit driven production procesess (credit can also be used for buying bonds or shares, government securities or for the consum). If money capital is borrowed to an industrial corporation, capital doubles itself for a certain period in a property title and in investive capital – related to a singular capital. Through the event of an credit-relation a certain sum of money (with the potential to gain surplus) has doubled for a fixed temporal interval, because on the one side the debtor can, if he uses the money for the organisation of new production processes, instruct new metamorphosis of capital, and on the other side the creditor can regard his money-capital as a future surplus, because he can expect interest payment. The functions of credit: to rise the velocity of capital, to accelerate the making of an average profitrate, the availability of big sums of money for capital intense production processes etc.

Fictitious capital: According to Marx fictitiuos capital are shares and bonds of corporations and states, whose buying includes the legal right for a participation on future flows of income in form of interest or dividends. Fictitious capital is the claim on a future sum of money, which should also be realised as a future increase of money capital. Low interest rates will lead to a rise of the prices of securities. Interest rates and the prices of securities act inverse to each other. The trend to negative interest rates will lead to a rise of prices of shares, bonds and real estate. While low-income parts of the population hold their savings at bank accounts and suffer from negative interest rates, the rich benefit, when they hold their assets as shares, real estate or bonds. With the existence of fictitious capital no new value is realised, but it is definitely real existing money-capital – in relation to the anticipation of a value, which should be generated in the future. But we find here also an actualisation of virtual value, as fictitious capital is a real claim on future income in the presence.

The price of a security depends not only on the approval between buyer and seller, but there exist a series of other economic factors like business cycles, interest rates und movements of the differential capital accumulation, which influence the prices. Harvey uses at this point the term »capitalization«, which is the formal process of building fictitious capital – special income flows, which result from assets as bonds, share or real estate, are allocated to fictitious capital, whose fixing is dependent (besides the expectations of buyers and sellers on future income) on interest rates, which are the result of the game of supply and demand at the money and capital markets (and have again an effect to the expectations.) The risk, whether money proves itself in the future as money-capital, is now integrated directly into the asset. But like the credit the asset involves for a fixed period a double increase of capital. The buying of an asset includes the special use of the use value of fictitious capital to create profit in future, while the seller of an bond or share is not sperated from the capitalization of money-capital, because the issuer of bonds or shares owes the money he got by selling the asset and which he can now use to organise profit driven production processes.

The Derivate. The usual opinion of finance-economy describes the contract of a derivative as an asset, whose value ist dependent on something else, which is called underlying, while one speculates on the future value of the underlying. This is only true insofar the principles of euclidean geometry are not always wrong, but are true only sometimes. Derivates include primarily a speculation on the future value of the asset itself.

The future-contract is an agreement between two persons to buy or sell an index, commodity etc. at a certain point in the future und for a price, which is fixed in the contract and differs from the actual and the market price in the future (of the index, commodity etc.) If the market price is rising above the fixed price of the contract, the buyer gains a profit. Options are derivative contracts, which include the right to buy (call) or sell (put) at a certain point in the future and for a fixed price the underlying, without a need to carry out the option. What is traded with such vanilla-derivatives is not only a calculated future, but a risk, which insists in the spread between strike price and spot price.

The CDS is a special form of insurance, which is separated through following points from a normal insurance: 1) The seller of a CDS holds the risk of a credit loss, without holding the credit itself. 2) He can sell the CDS and therefore does not need to have the reserve capital, which compensate the credit loss. 3) The buyer of the CDS must not be the owner of the underlying credit. These are the characteristics of a »Naked CDS«, whereby seller and buyer construct the swap in relation to a referential bond, which either the seller nor the buyer holds, to speculate on its function and movement in the future. With the CDS it is possible to manipulate the prices of the referential credits (rising demand for CDS leads to higher interest-rates on government bonds) and to postpone the event, which stands for monetary crisis. In the case of insolvency the losses will be held by those, who established at a certain point a high demand for assets and misses to get out of the selfreferential accelerating boom, while the dominant investors left the market at the right point before the catastrophe.

Derivates are characterised by a threefold contingency (Suhail Malik, Ayache): Derivative contract (contingency, which is established by writing a contingent claim and the variation of the underlying), variability of the price movement of derivatives (contingency of revision is subsumed under permanent reassessment, which is dependent on the prices of the derivatives and the underlyings) and absolute volatility of price in the future. The latter means, that the movement of prices could be always different. If the present future, which expresses, what is expected in future, and the future present, which is the future, which occurs in real, are not identical, than with mathematical calculation a present future and the difference to such a future is actualised, which was expected and whose potentials have been used. At the same time the present is disciplined by such a trading of the difference of two futures. But this should not lead to an affirmation of contingency, insofar contingency is a higher form of complexity: it increases the adaptability of the financial system to process unforeseen economical events und prevent crises. This must be understood as a form of resiliency, the absorption of interruptions through statistics, stochastics and algorithm, without being able to prevent such interruptions and crises at all.

The CDO has the potential to aggregate a heterogeneous set of papers, which exists as different money flows and risks, into a homogeneous pool, which functions as a singular money flow and a singular risk. The homogeneous pool can be divided again in different classes of risks and money flows; in the process of division the CDO changes its economic qualities. This can be described with Deleuze's concept of difference.

The abstract risk, which is incorporated in the CDS can be described as a singular risk, insofar it processes a objective comparison of concrete risks (interest, credit and insolvency risks) which are all connected to subjective assessment. The derivative is always realised in money (John Milios). Derivatives include an important function within the reproduction of capital, insofar they stabilize the relation of capital with the construction of a technology of power (evaluation of states, corporations and individuals).

The double function of derivates means to organise processes of normalisation of risk and to function as a new form of speculative capital. The »value« of an speculative asset is not a result of the capitalist process of production, but the condition; it doesn't exist, because surplus value is produced or another form of income is realised in the market, but because the financial capital is confident to a certain degree that the actualisation of profit will happen in the future .

The creation of money through the banks: For the creation of loan the bank does not need the deposits of customers. The »productivity« of banks include the running of an abstract promise to pay; to create loan is one form. The creation of credit is not dependent upon a real deposit of cash and in that sense it can be called »fictitious«. It is a fictitious deposit or an asset of the bank. Fictitious capital, by contrast, can be described as a financial asset that is traded in the market and which has a price that is a function of interest rates and future expectations of returns. Bank deposit or loan assets remain on the bank's books. Only if the asset later becomes securitised, than it would become fictitious capital.

If a private bank decides that a customer is creditworthy, than the bank gives the customer a loan, which is written at his account. With the credit the amount of money rises. These accounts are called bank deposits, which are written as numbers in an account to process electronic payments. On the passive side of the bank balance sheet appears the liability as a deposit, resulting from credit; on the active side of the bank balance

sheet the total assets are increased by an amount, which is approximatively the credit sum. This is called »balance sheet extension«. The reliability of the bank, and that is important, is not compensated by a payment of the bank and therefore none of their accounts is reduced by a certain amount of money. The reliability appears in the balance sheet just as an asset of the customer. The creation of such a kind of money includes that the limit of credit is part of the risk-management of the bank.

Through the creation of credit by writing this kind of money first exists on the level of customers, but there exist always flows of payments between the banks, which are measured by so called interbank deposits. If the praxis of loan politics between the banks differs over a certain degree than we see unequal flows of payments between the banks, which influence the interbank deposits and therefore also the profits of banks. Each bank has day for day a huge amount of received payments and cash disbursements, which are set off at the interbank deposits, whereby the differences balance themselves over a certain time period. When differences of payment are established over a longer time banks are obliged to balance the different sums. With this process a new type of account comes into play: the account, which private banks hold at their central bank. Every private bank is obliged to have an account at the central bank of its country und this account has to show a plus. The private banks will get credits of the central bank through the submission of assets and credits.

What are the limits of the creation of such a kind of money? The first limit is that profits, which result from the creation of deposit money, are not realised directly at the point, where a credit is given; rather they are realised during the loan period, if the debtor pays regularly interest und pays backs the sum of the credit. If a debtor cannot pay, the bank realizes a minus. Other limits: 1) The existing amounts of debtors, which depend on economic cycles and the volume of the existing assets. 2) Differences in the payment flows between the private banks. If one bank in relation to other banks creates too much credit or buys too much assets, than the bank has to expect debts on its interbank accounts, because there will be more outflow than inflows of payments. 3) The size of capital and capital power of a private bank and the corresponding degree of national and international networking.

We can now see that the production and realisation of profits through banks is completely different from industrial capital. Banks work furthermore mostly with credit capital; the leverage is much higher than that of corporations of other sectors. Leverage is the difference between debt capital and equity capital. While industrial corporations have a leverage around 1, banks have normally a leverage around 20, which can rise into 70 nowadays. The profits of the private banks are not part of the movements, which lead to average profitrate, but are subsumed to very special mechanism of balance, which are part of their competition.

If production and circulation of a physical object (classical commodities like clothes, food, computers etc.) are affected directly by credit und the credit is massively influenced by the price of an derivative, can one still think of three classes of economic objects? A desk might be an object for different actions, but if factors like interest rates on the credits of a desk producing company, options and insurances on the price of wood and fluctuations in foreign currencies are superposed with the factors of production, and this in the context of the production of other products, so over the desk as a physical object different relations of global financial capital are placed. Financial assets have a better effectiveness than classical financial instruments like credit and classical commodities.

The global financial markets have a special function in organizing the competition and the mobility of corporations; they accelerate the tendency of average profitrates. These processes include the permanent evaluation and calculation of the strategies of corporations, while at the same time private savings in big dimensions flow into these markets. Financial markets generate a unstable and multiple structure to control the efficiency of corporations; they can be described as a way of flexible, controlling and decentralised supervision over capital flows and capital accumulation, whereby most corporations have to follow the governance of financial capital. This governance improves at the same time the conditions for exploitation strategies of corporations, which they use actively. Although governance cannot be understood as a kind of of planing system, because financial capital is divided in different parts und is connected to the cyclical and crises prone processes of capital accumulation – in the context to Gesamtkapital. Opposite to the position of Keynes its the illiquid or highly regulated market – capital, which is bound to machines and factories, which cannot resist against the efficiency of postmodern fluid markets; capital must not be bound for a longer time to a special project, it can get back to the form of money-capital und look for better conditions of exploitation (of differences). At the same time the molecular assessment of corporations by the financial markets during a cycle is now important; parts, processes and attributes of companies get priced at the financial markets.

Foto: Bernhard Weber

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